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ORIGINAL

EXCEPTION

BEFORE THE ARIZONA CORPORATION COMMISSION


COMMISSIONERS

Arizona Corporation Commission

DOCKETED

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IN THE MATTER OF THE
COMMISSION'S INVESTIGATION OF
VALUE AND COST OF DISTRIBUTED
GENERATION.

DOCKET NO. E-00000J-14-0023

**ARIZONA INVESTMENT
COUNCIL'S COMMENTS TO
RECOMMENDED OPINION AND
ORDER**

I. INTRODUCTION

Arizona Investment Council ("AIC"), through undersigned counsel, hereby files its Comments to the Recommended Opinion and Order ("ROO") docketed on October 7, 2016 in the above-captioned matter. AIC appreciates the work done by Judge Jibilian in preparing a thorough and thoughtful analysis of this proceeding. AIC generally supports the ROO's discussion and conclusions, many of which provide a productive platform for Arizona's energy future – one that treats all behind-the-meter technologies equally and protects customers against non-transparent and unjustifiable cost shifts.

Towards that end, AIC specifically supports the elimination of net metering and "banking," the determination that the value of exported rooftop solar energy should be based on an avoided cost method, and the conclusion that rooftop solar customers are partial requirements customers. AIC's exceptions are limited to three points: (1) that the Commission should approve only one method – Staff's avoided cost model – for valuing exported rooftop solar energy; (2) that rooftop solar customers should be deemed a separate class for rate design and cost of service purposes; and (3) that the Commission should commit to address the cost-shift caused by rooftop solar customers' self-

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1 consumption by reforming residential rate design so as to de-link fixed cost recovery and
2 energy purchases from the utility.

3 4 **II. THE TIME IS RIPE FOR CHANGE**

5 To be sustainable, Arizona's energy policy must progress with the corresponding
6 evolution of the behind-the-meter energy technologies that Arizonans are now using and
7 will continue to adopt. As the ROO recognizes, the Commission's current renewable
8 policy began in 1996, making the Commission an early leader in the development of
9 renewable resources. The Commission's renewable policies evolved over time, finally
10 culminating in the current Renewable Energy Standard and Net Metering rules.
11 (Recommended Opinion and Order at 5:5-19). These rules, which reserved almost 1/3
12 of the regulated utilities' renewable procurement requirements for rooftop solar, were
13 intended to prop up the growing rooftop solar industry with hefty subsidies.

14 The Commission's plan worked. Rooftop solar installations skyrocketed year
15 over year, even as the upfront incentives paid to early rooftop solar adopters diminished.
16 The unprecedented ascendance of rooftop solar even absent a cash incentive was due
17 primarily to three things: (1) the fact that the combination of the net metering rules with
18 the utilities' volumetric rate design (which places almost all of the utilities' fixed costs
19 in the energy charge, making that charge artificially high) allowed rooftop solar
20 companies to price their product high enough to turn a significant profit while still
21 beating the utility price and thereby providing "savings" to the utilities' customers
22 ("savings" that would be paid for by the utilities' other customers); (2) the advent of the
23 solar lease arrangement, which allowed customers to install rooftop solar with no
24 upfront cost to them; and (3) decreases in the cost of rooftop solar technologies (a
25 phenomenon that, the record showed, served to increase rooftop solar company profits
26 rather than provide additional savings to the rooftop solar customer (*see* Direct
27 Testimony of APS Witness Ashley Brown at 59:1-6)).

1 The current system is so rich for rooftop solar companies that certain of them
2 fight hard to preserve the status quo, usually with the dubious refrain that any alteration
3 will “kill the rooftop solar industry.” But, as the evidence in the record made clear, the
4 current policy results in an unfair and unsustainable cost shift to non-rooftop solar
5 customers and prioritizes rooftop solar technologies above all others that customers
6 might choose for their homes. In addition, leaving the rooftop solar industry dependent
7 on an opaque subsidy gives it no incentive to evolve its business model to become self-
8 sufficient – an end that is contrary to sound public policy.

9 For that reason, as the ROO acknowledges, now is the time for the Commission
10 to move forward. “It is time to provide certainty and a path forward to resolve disputes
11 surrounding the successful integration of DG with the utility’s electrical systems in an
12 economic and fair manner.” (ROO at 143:7-9 and 9-11). AIC fully agrees with the ROO
13 that attempts to preserve the status quo, should no longer be tolerated. (*Id.* at 143:8-9
14 and 14). Arizona’s energy policy needs to progress, and eliminating the current net
15 metering regime and pricing rooftop solar exports at a fair price based on a transparent
16 methodology are important parts of that evolution. So, too, should residential rate
17 design be reformed so that a utility’s recovery of fixed costs is independent of the
18 amount of energy a customer purchases from its electric provider. With the abundance
19 of solar energy potential in Arizona, this Commission has the opportunity to set the
20 nation’s model for a sustainable energy policy. The record in this case allows it to act
21 on that opportunity now.

22 **III. DISCUSSION OF COMMENTS TO THE ROO**

23 **A. Staff’s avoided cost methodology should be the only valuation method** 24 **adopted in this proceeding.**

25
26 AIC fully supports the ROO’s conclusion that the “[v]aluation of DG exports
27 should be based on an avoided cost methodology.” (*Id.* at 166:24 ¶ 134). AIC
28 respectfully disagrees, however, with the recommendation that two different valuation

1 methods be adopted. Approving a single, straightforward valuation methodology that
2 uses known, objective, and calculable costs is important to utilities, the rooftop solar
3 industry, and customers alike. The energy economy is changing and all of its
4 participants need regulatory certainty in order to evolve their business models in order to
5 adapt. Adopting multiple valuation methods or formulas that include speculative and
6 debatable inputs does not provide that certainty. To the contrary, such outcomes invite
7 confusion and ensure that future rate cases will be subsumed by litigating the
8 components of the methodology and battling over which of the permitted methods
9 should be used.

10 On the other hand, adopting one straightforward valuation method with
11 objectively calculated inputs allows stakeholders to derive the appropriate value easily
12 and to develop a business plan around that price. Although AIC would prefer the
13 traditional avoided cost calculation (limited to fuel, operations and maintenance, and
14 some transmission losses), it accepts the ROO's recommendation that Staff's proposed
15 avoided cost method be used.

16 AIC also urges the Commission to implement the new method immediately,
17 rather than over time as the ROO suggests. Gradually implementing a new valuation
18 method simply continues the cost shift and prolongs the resolution of an issue that the
19 parties to this proceeding have been debating for years.

20
21 **B. Rooftop solar customers should be deemed a separate class for rate**
22 **design and cost of service purposes.**

23 The record in this docket is replete with evidence that rooftop solar customers are
24 sufficiently different from other residential customers that they can and should be treated
25 as a separate class for rate design and cost of service purposes. (Overcast Direct
26 Testimony at 38:17-18; Snook Hearing Testimony, Tr. at 104:6-9). AIC wholly agrees
27 with the ROO's conclusion that "rooftop solar DG customers are partial requirements
28 customers who export power to the grid." (*Id.* at 169:5-6 ¶ 151). Implicit in this

1 statement is the fact that solar customers have important characteristic differences from
2 other residential customers sufficient to regard them as a separate class. Indeed, all
3 partial requirements customers except for rooftop solar customers are *currently* treated
4 as a separate class of customers in most utilities' rate structures.

5 Rather than making an affirmative statement about the propriety of treating
6 rooftop solar customers as a separate class for rate design and cost of service purposes,
7 the ROO instead concluded that the issue should be re-litigated in future rate
8 proceedings. (ROO at 169:7-8 ¶ 152). AIC respectfully disagrees with this
9 recommendation and urges the Commission to conclude in this docket that rooftop solar
10 customers are sufficiently different from other residential customers that they may be
11 treated as a separate class. There is abundant evidence in the docket to make that
12 determination, and requiring the parties to re-litigate the issue in yet another proceeding
13 promotes an inefficient waste of time and resources.

14 Moreover, a simple finding in this docket that solar customers are a unique class
15 does not require the Commission to treat solar customers differently for rate design
16 purposes in future proceedings. Rather, it allows the Commission and all participating
17 stakeholders to look at the rooftop solar customer class in isolation to determine what it
18 really costs for each utility to serve that class. Making those costs transparent is
19 important so that the Commission can decide, as a matter of policy, if it wants solar
20 customers to pay for their grid use or if it wants to continue to subsidize that use by
21 spreading those costs to other customers.

22
23 **C. The Commission should commit in this docket to address the cost-shift**
24 **caused by rooftop solar customers' self-consumption by reforming**
25 **residential rate design so as to de-link fixed cost recovery and energy**
purchases.

26 The record in this case clearly demonstrates that rooftop solar customers are not
27 paying for the fixed grid services that they use and that those costs are borne instead by
28 non-rooftop solar customers. Replacing the net metering regime with an avoided cost

1 compensation method for exported rooftop solar addresses part, but not all, of the
2 problem. Materially contributing to the cost-shift is the fact that the overwhelming
3 majority of a utility's fixed costs are recovered through the volumetric energy portion of
4 utility rates. When a customer installs a solar panel and replaces energy purchases from
5 the utility with self-consumption, there is no current means for the utility to bill that
6 solar customer for the grid services that he or she uses.

7 As has been thoroughly discussed in various proceedings for more than a year,
8 the cost shift caused by a solar customer's self-consumption can be corrected with
9 changes to residential rate design that disconnect fixed cost recovery and energy
10 purchases from the utility. AIC believes that three-part demand rates are the best
11 available cost-based rate structure because they both address the cost-shift and send
12 beneficial price signals to customers, but it does not ask the Commission to opine on the
13 appropriate rate design at this time. Rather, AIC asks the Commission to enter a finding
14 in this docket that the Commission is committed to modifying residential rate design in a
15 manner that resolves the remaining cost shift by de-linking fixed cost recovery and
16 energy purchases from the utility.

17 18 **IV. CONCLUSION**

19 For the foregoing reasons, AIC respectfully requests that the Commission amend
20 the ROO to:

- 21 (1) adopt only one method for valuing exported rooftop solar energy, Staff's
22 avoided cost model;
- 23 (2) deem rooftop solar customers a separate class for rate design and cost of
24 service purposes; and
- 25 (3) enter a finding that the Commission is committed to modifying residential
26 rate design in a manner that resolves the cost-shift caused by a rooftop
27 solar customer's self-consumption by making fixed cost recovery
28 independent from energy purchases from the utility.

1 RESPECTFULLY SUBMITTED this 15 day of November, 2016.

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